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Mexico

Poultry and Products

Annual

2002

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Report Highlights:

Mexico's poultry industry is forecast to continue expanding during MY 2003 (Jan-Dec) as the trend toward vertical integration in the chicken sector continues. Imports of U.S. poultry products are forecast to increase as North American Free Trade Agreement tariffs and tariff-rate quotas are eliminated in January 2003. The Mexican poultry industry is concerned about the potential for growth in imports, and is seeking measures to slow imports. Imports of fresh and frozen poultry for retail sale came to halt in June of 2002 when the Government of Mexico imposed new testing requirements for Avian Influenza. At the time of this report, only imports of cooked chicken and chicken for processing are being imported.

Includes PSD changes: Yes

Includes Trade Matrix: No

Annual Report

Mexico [MX1], MX

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SECTION I. Situation and Outlook

Poultry Situation and Outlook

Chicken meat production for MY 2003 (Jan-Dec) is forecast to increase 5 percent over MY 2002 as the trend toward vertical integration is expected to continue. Population growth and affordable prices relative to other meats is expected to spur demand. Turkey meat production is forecast to increase 4 percent. Domestic turkey meat production still represents less than 10 percent of total consumption.

Chicken and turkey meat imports, mainly mechanically deboned meat (MDM) and turkey parts for use in the sausage and cold meat industry, are by far the main poultry products imported by Mexico. These imports are forecast to grow for MY 2003 because of the full NAFTA implementation and opening of the market, as there will be no import tariff quotas. The Mexican poultry industry, however, is very concerned that with the implementation of NAFTA, larger imports of U.S. chicken leg quarters could adversely affect the price structure for domestically produced chicken meat.

On the other hand, due to concerns on Avian Influenza (AI) problems in the U.S. and Chile, the Secretariat of Agriculture (SAGARPA) enforced in June 12, 2002, an AI import policy regulation that affected international trade. Under its AI emergency regulation, Mexico requires that all raw poultry destined for retail sale originate from AI-free states, and come from flocks that have undergone two AI tests using the agar gel precipitation procedure and the hemagglutination inhibition (HI) test. The most difficult requirement has been the compliance with HI test because the antigen is not commercially available in the U.S. As a result of this new HI test, no U.S. exports of raw poultry for retail took place during July and August 2002.

SECTION II. Statistical Tables

Poultry Meat, Chicken-16 weeks

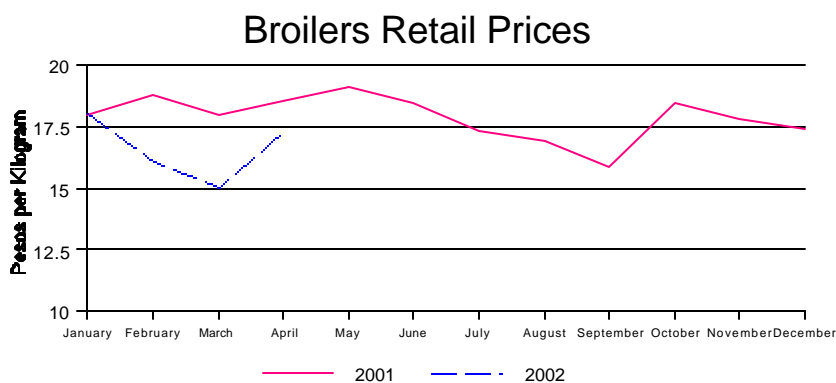
PSD Table						
Country	Mexico					
Commodity	Plty, Meat, Chicken -16 wks			(1000 MT) (MIL HEAD)		
	Revised 2001		Preliminary 2002		Forecast 2003	
	Old	New	Old	New	Old	New
Market Year Begin	01/2001		01/2002		01/2003	
Inventory (Reference)	0	0	0	0	0	0
Slaughter (Reference)	0	0	0	0	0	0
Beginning Stocks	0	0	0	0	0	0
Production	1989	2067	2108	2188	0	2297
Whole, Imports	5	0	8	0	0	0
Parts, Imports	230	235	232	253	0	291
Intra EC Imports	0	0	0	0	0	0
Other Imports	0	0	0	0	0	0
TOTAL Imports	235	235	240	253	0	291
TOTAL SUPPLY	2224	2302	2348	2441	0	2588
Whole, Exports	0	0	0	0	0	0
Parts, Exports	0	0	0	0	0	0
Intra EC Exports	0	0	0	0	0	0
Other Exports	0	0	0	0	0	0
TOTAL Exports	0	0	0	0	0	0
Human Consumption	2219	2302	2343	2441	0	2588
Other Use, Losses	5	0	5	0	0	0
Total Dom. Consumption	2224	2302	2348	2441	0	2588
TOTAL Use	2224	2302	2348	2441	0	2588
Ending Stocks	0	0	0	0	0	0
TOTAL DISTRIBUTION	2224	2302	2348	2441	0	2588
Calendar Yr. Imp. from U.S.	0	0	0	0	0	0

Poultry Meat, Turkey

PSD Table						
Country	Mexico					
Commodity	Poultry, Meat, Turkey			(1000 MT) (MIL HEAD)		
	Revised 2001		Preliminary 2002		Forecast 2003	
	Old	New	Old	New	Old	New
Market Year Begin	01/2001		01/2002		01/2003	
Inventory (Reference)	0	0	0	0	0	0
Slaughter (Reference)	0	0	0	0	0	0
Beginning Stocks	0	0	0	0	0	0
Production	13	13	13	13	0	14
Whole, Imports	4	0	5	0	0	0
Parts, Imports	143	147	150	157	0	180
Intra EC Imports	0	0	0	0	0	0
Other Imports	0	0	0	0	0	0
TOTAL Imports	147	147	155	157	0	180
TOTAL SUPPLY	160	160	168	170	0	194
Whole, Exports	8	0	8	0	0	0
Parts, Exports	0	0	0	0	0	0
Intra EC Exports	0	0	0	0	0	0
Other Exports	0	0	0	0	0	0
TOTAL Exports	8	0	8	0	0	0
Human Consumption	151	160	159	170	0	194
Other Use, Losses	1	0	1	0	0	0
Total Dom. Consumption	152	160	160	170	0	194
TOTAL Use	160	160	168	170	0	194
Ending Stocks	0	0	0	0	0	0
TOTAL DISTRIBUTION	160	160	168	170	0	194
Calendar Yr. Imp. from U.S.	0	0	0	0	0	0

Broilers Retail Market

BROILERS RETAIL PRICES Pesos/Kilogram			
Month	2001	2002	Change %
January	18.00	18.06	0.33
February	18.83	16.12	(14.39)
March	17.97	15.08	(16.08)
April	18.54	17.33	(6.53)
May	19.10	N/A	N/A
June	18.47	N/A	N/A
July	17.30	N/A	N/A
August	16.93	N/A	N/A
September	15.86	N/A	N/A
October	18.50	N/A	N/A
November	17.80	N/A	N/A
December	17.40	N/A	N/A
Annual Average	17.89	N/A	N/A

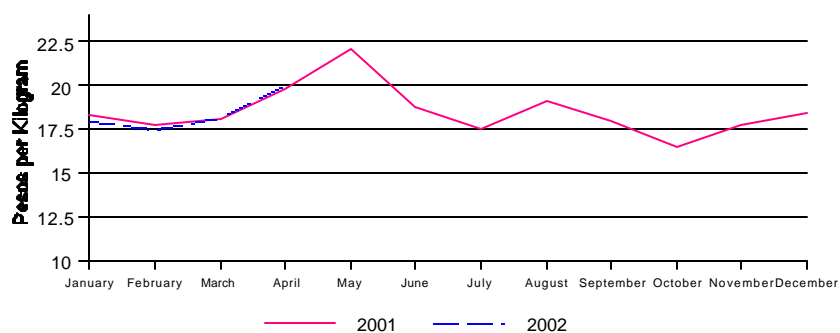


Source: UNA

Broilers Wet Market Prices

BROILERS* WET MARKET PRICES Pesos/Kilogram			
Month	2001	2002	Change %
January	18.38	18.00	(2.07)
February	17.75	17.50	(1.41)
March	18.13	18.17	0.2
April	19.80	20.07	1.36
May	22.14	N/A	N/A
June	18.75	N/A	N/A
July	17.50	N/A	N/A
August	19.13	N/A	N/A
September	18.00	N/A	N/A
October	18.50	N/A	N/A
November	17.80	N/A	N/A
December	18.50	N/A	N/A
Annual Average	18.69	N/A	N/A
*whole chicken incld. offal		Source: UNA	

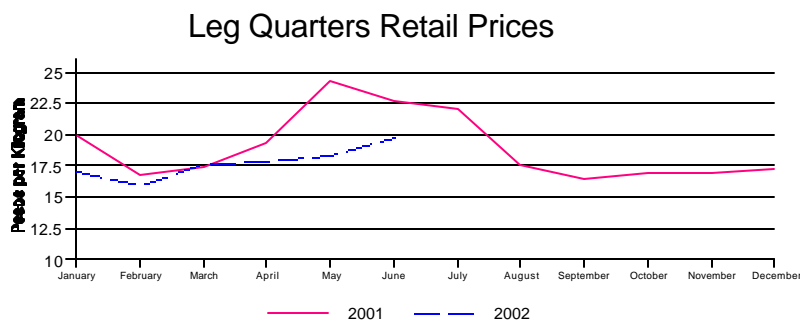
Broilers Wet Market Prices



Leg Quarter Retail Prices

LEG QUARTER RETAIL PRICES Pesos/Kilogram			
Month	2001	2002	Change %
January	19.95	17.14	(14.09)
February	16.72	15.92	(4.78)
March	17.44	17.69	1.43
April	19.38	17.82	(8.05)
May	24.33	18.35	(24.58)
June	22.71	19.78	(12.90)
July	22.07	N/A	N/A
August	17.50	N/A	N/A
September	16.47	N/A	N/A
October	16.99	N/A	N/A
November	16.95	N/A	N/A
December	17.19	N/A	N/A
Annual Average	18.97	N/A	N/A

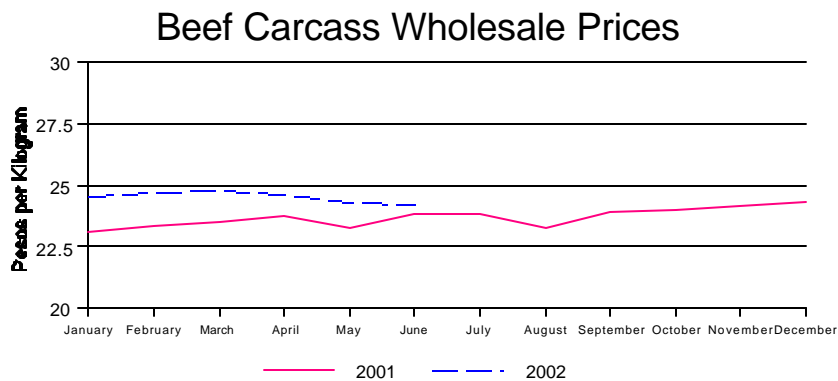
Source: National Market Information Service (SNIM)



Beef Carcass Wholesale Prices

BEEF CARCASS WHOLESALE PRICES Pesos/Kilogram			
Month	2001	2002	Change %
January	23.11	24.58	6.36
February	23.33	24.72	5.96
March	23.54	24.83	5.48
April	23.72	24.68	4.05
May	23.27	24.29	4.38
June	23.80	24.27	1.97
July	23.87	N/A	N/A
August	23.25	N/A	N/A
September	23.90	N/A	N/A
October	24.01	N/A	N/A
November	24.17	N/A	N/A
December	24.36	N/A	N/A
Annual Average	23.69	N/A	N/A

Source: National Market Information Service (SNIM)



NAFTA POULTRY AND EGGS TARIFF RATE QUOTAS 2001					
PRODUCT	H.S. Tariff Number	ORIGINAL MT TRQ	ALLOCATION MECHANISM	TOTAL IMPORTS (MT) December 2001	% filled
EGGS	0407.00.01	7,994.13		8,639.02	108.07%
Fresh: Border regions a/ Other regions			Direct allocation Auction		
Fertilized: Nationwide			Direct allocation		
Whole fresh, chilled & frozen turkey	0207.24.01 0207.25.01	2,459.74	Direct allocation to the border region and the northern line b/.	1,629.54	66.25%
Other whole Poultry (Broilers or hens)	0207.11.01	15,988.27	Direct allocation to the border region and the	2,307.96	
fresh, chilled or frozen)	0207.12.01		northern border line.	451.27	
Total				2,759.23	17.26%
Ducks ,geese, and guineas, whole, fresh	0207.32.01	999.00	A nationwide auction (only ducks, geese, and guineas) c/	0.00	
chilled or frozen	0207.33.01			797.50	
Total				797.50	79.83%
Mechanically Deboned Meat	0207.13.01	33,206.47	Direct allocation to sausage companies	65,526.81	
	0207.14.01		and cold meat producers	46,269.65	
	0207.26.01		nationwide	1,799.06	
	0207.27.01			17,761.17	
Total				131,356.69	395.58%
Fresh or chilled Turkey parts	0207.26.99	34,436.40	Direct allocation to border region and the northern border line	58,305.08	
Frozen Turkey parts	0207.27.99		Direct allocation to sausage companies.	57,524.13	
Total				115,829.21	336.36%
Poultry cuts (broilers or hens)	0207.13.99	30,746.82	Direct allocation to border region and	34,902.40	
fresh, chilled or frozen	0207.14.99		the northern border line	58,526.40	
Total				93,428.80	303.86%

NAFTA POULTRY AND EGGS TARIFF RATE QUOTAS 2001					
PRODUCT	H.S. Tariff Number	ORIGINAL MT TRQ	ALLOCATION MECHANISM	TOTAL IMPORTS (MT) December 2001	% filled
Duck, goose and guinea cuts, fresh chilled or frozen Total	0207.35.99 0207.36.99	10.00	(only ducks, geese and guineas) d/	0.00 8.08 8.08	 80.80%
Source: UNA (Based on data from General Customs Administration-Treasury Minister, SHCP)					
a/ Border region: Includes states of Baja California, Baja California Sur, Quintana Roo and a portion of the state of Sonora; the southern border region along with Guatemala and the municipalities (counties) of Comitán de Domínguez, Chiapas and Salina Cruz, Oaxaca. This region included former free-trade border areas.					
b/ Northern border line: The Mexican territory between the International line with the US. and a 20 km parallel line from the International limit, including a portion of the state of Sonora and the Gulf of Mexico, and the municipality (county) of Cananea, Sonora.					
c/ Whole ducks, geese, and guineas TRQ is part of the Other Whole Poultry TRQ.					
d/ Cuts of ducks, geese, and guineas TRQ is part of the Poultry Cuts TRQ.					

Tariff Reductions For Nafta Poultry Products				
Year	Shell Eggs ^â	Poultry Meat ^ã	Turkey Meat ^ä	
0	50%	260%	133%	
1/ JAN 1994	48%	249.6%	127.68%	
2/ JAN 1995	46%	239.2%	122.36%	
3/ JAN 1996	44%	228.8%	117.04%	
4/ JAN 1997	42%	218.4%	111.72%	
5/ JAN 1998	40%	208.0%	106.40%	
6/ JAN 1999	38%	197.6%	101.08%	
7/ JAN 2000	28.5%	148.2%	75.81%	
8/ JAN 2001	19%	98.80%	50.54%	
9/ JAN 2002	9.5%	49.40%	25.27%	
10/ JAN 2003	0%	0%	0%	

^â Including fertilized or hatching eggs.

^ã Other whole poultry, other poultry parts, turkey cuts, M.M. (MDC or MDT)

^ä Whole turkey

2002 NAFTA Tariff Rate-Quotas	
PRODUCT	TRQs (MT)
Whole Turkey	2,533.3
Other Whole Poultry	16,467.9
Turkey Parts and Offal	35,469.3
Other Poultry parts and Offal	30,608.3
Mechanically Deboned Meat	34,202.7
TOTAL	119,281.5

MEXICO: Poultry Numbers, 2001	
Type of Bird	Thousand of Head
Laying Hens in production*	113,590
Pullets in grow out	34,077
Light Breeding Hens in production	825
Light Breeding Hens in grow out	376
Light Progenitor Hens in production	0
Light Progenitor Hens in grow out	0
Heavy Breeder Hens in production	8,659
Heavy Breeder Hens in grow out	5,722
Heavy Progenitor Hens in production	165
Heavy Progenitor Hens in grow out	113
Broilers (Per cycle)	216,561
Turkeys (Per cycle)	801
Total Poultry Flock	380,889

*There are an estimated 19 million laying hens in the second cycle
Source: UNA (National Poultry Association)

PER CAPITA CONSUMPTION				
Products /pounds-	2000	2001	2002*	2003*
EGGS	43.87	44.50	44.54	44.76
CHICKEN MEAT	43.87	45.97	47.80	49.30
TURKEY MEAT**	3.57	4.18	4.29	4.41

Source: UNA (National Poultry Association)

*Forecast

**Includes whole turkey, turkey parts and processed products.

POULTRY SECTOR FEEDSTUFF CONSUMPTION - MT				
YEAR	EGG	CHICKEN	TURKEY	TOTAL
1999	3,040,624	3,427,194	26,896	6,494,714
2000	3,226,672	3,761,942	27,679	7,016,293
2001	3,323,910	4,015,644	28,536	7,368,090
2002*	3,425,597	4,176,269	29,392	7,631,258
2003*	3,528,365	4,301,558	30,274	7,860,197

Source: UNA (National Poultry Association)

*Forecast

Strategic Indicator Table: Poultry Products Tariffs				
Country: Mexico				
Report Year: 2002				
H.S.	Product Description	Tariff current Year	TRQ	If filled TRQ
0105.11.01	Day old chicks, which do not need feeding during transport	5.0	N/A	N/A
0105.11.02	Breeding stock, layer-type with selected breed certificate when imports are no more of 15,000 heads in each operation	Ex	N/A	N/A
0105.11.99	Other	1.0	N/A	N/A
0105.19.99	Other (Chickens)	1.0	N/A	N/A
0207.11.01	Other fresh or chilled whole poultry	Ex	16,467.9	49.4
0207.12.01	Other frozen whole poultry	Ex		
0207.32.01	Whole poultry fresh, ducks, geese & guineas	Ex		
0207.33.01	Whole poultry frozen, ducks, geese & guineas	Ex		
0207.13.99	Fresh & chilled chicken parts	Ex	30,608.3	49.4
0207.14.99	Frozen poultry parts	Ex		
0207.26.99	Fresh & chilled turkey parts	Ex	35,469.4	49.4
0207.27.99	Frozen turkey parts	Ex		
0207.24.01	Whole fresh turkey	Ex	2,533.3	25.2
0207.25.01	Whole frozen turkey	Ex		
0207.13.01	Mechanically deboned chicken meat fresh or chilled	Ex	34202.7	49.4
0207.14.01	Mechanically deboned chicken meat frozen	Ex		
0207.26.01	Mechanically deboned turkey meat	Ex		
0207.27.01	Mechanically deboned turkey meat,frozen	Ex		
0407.00.01	Table eggs, fresh, including hatching eggs	Ex	8,233.9	9.5
1602.31.01	Processed meat (Turkey)	2.0	N/A	N/A
1602.39.99	Other processed poultry meat	2.0	N/A	N/A

MONTHLY EXCHANGE RATE AVERAGES			
	2000	2001	2002
January	9.02	9.76	9.16
February	9.43	9.70	9.10
March	9.28	9.60	9.07
April	9.37	9.33	9.14
May	9.50	9.14	9.49
June	9.81	9.09	9.75
July	9.43	9.15	9.79
August	9.27	9.12	n/a
September	9.33	9.40	n/a
October	9.52	9.45	n/a
November	9.50	9.25	n/a
December	9.44	9.16	n/a
Annual Avg.	9.40	9.35	n/a

Source: Mexican Federal Register

Note: Monthly rates are averages of daily exchange rates from the Banco de Mexico.

SECTION III. Narrative on Supply and Demand, Policy & Marketing

CHICKEN MEAT

PRODUCTION

Mexican chicken meat production for MY 2003 (Jan-Dec) is forecast to increase five percent over MY 2002 production, down from six percent growth between MY 2001 and 2002. Major producers are currently in a good financial position, and chicken's place as the least expensive meat in Mexico should support demand, despite the potential for higher feed costs given current forecasts of U.S. coarse grain and soybean production. If feed costs rise, it's expected that producers will lower margins rather than risk losing sales through higher prices. With the possibility that Mexico's economic growth will improve over the next year, producers are not interested in driving customers away over the short term by raising prices. Feed costs account for nearly 55 percent of the cost of production, however, increased vertical integration in the industry is helping to lower production costs.

The increase in the chicken meat production estimate for MY 2002 reflects continued demand for poultry relative to other more expensive meats. The poultry industry is still expecting good results during the balance of the marketing year, despite the recent slowdown in the Mexican economy as a result of the U.S. recession. Effective marketing campaigns, strong financial positions among chicken processors, and continued improvement in product quality should all help to spur demand and production during the balance of the marketing year. In keeping with established practice, the estimate of MY 2001 production was changed based on revised UNA data.

According to industry sources, poultry feed consumption for MY 2002 is expected to grow 3 percent over MY 2001, slightly slower than the rate of production as feed to meat conversion efficiency improves. Producers indicate that 60 percent of imported feedstuffs are sorghum and corn, 23 percent oilseeds and protein meals, and 17 percent other products such as safflower, orthophosphate, calcium, and methionine. By the end of June 2002, domestic white corn prices averaged 1,550 pesos/MT (US\$155.00/MT) and domestic sorghum prices averaged from 1,050 to 1,100 pesos/MT (US\$105.00 to \$110.00/MT).

Modern technology continues to be widely used by domestic poultry producers. UNA indicates that 60 percent or more of the industry is mechanized. About 80 percent of total Mexican chicken meat is produced in large vertically integrated companies. Genetics are usually sourced from the United States. The main broiler breeding flocks in Mexico are ROSS BREEDERS and HYBRO, which, combined, represent approximately 70 percent of the total broiler breeding stock. For the layer breeding flocks, 90 percent of production is white eggs, and the most representative genetic lines are HY LINE with 33 percent of total domestic production and ISE BABCOCK-300 with 35.3 percent of total production. The genetic line for brown egg production is HISEX BROWN with 5.1 percent of total domestic production.

Industry consolidation and infrastructure investment are expected to continue in the medium term. Currently, three leading companies account for nearly 60 percent of total domestic production of chicken meat. Over the next five

years, the industry is expected to consolidate further and these three companies could account for 80 percent of production. Medium size companies will likely merge into cooperatives and associations, with smaller players becoming contract producers. According to UNA data, large poultry producers accounted for 33 percent of the total production in 1996, compared to 52 percent in 2001. Whereas small farms accounted for a 27 percent of production in 1996, compared to 14 percent in 2001.

The average bird grow-out period depends largely where and how the bird will be sold. For live birds and whole chickens including offal, which are commonly sold in street markets, the average grow-out period is 49-56 days. Birds for the broiler market (whole chicken without offal) have an average grow-out period of 40-44 days. Those grown for sale in supermarkets (whole chicken without offal and chicken cuts) grow-out in 44-49 days. The average daily gain is 36-44 grams per bird. The average bird weight when marketed is 1.775 kg. UNA reports that the average feed conversion ratio is 2.2 kg of feed to 1 kg of poultry meat.

CONSUMPTION

Chicken meat consumption for MY 2003 is forecast to increase 6 percent due to population growth, the relative affordability of chicken, effective marketing, and improved product quality. Chicken meat demand is relatively elastic, so changes in price result in significant changes in consumption. However, broiler consumption continues to increase because it is cheaper compared to red meats. Increased consumer awareness of cholesterol problems is resulting in greater marketing opportunities for chicken meat. Consumers continue to prefer fresh, whole chicken to chicken parts. Although, purchases of chicken parts are increasing slowly, mainly in supermarkets servicing higher-income consumers. Mexican consumers tend to prefer dark meat over white meat. As a result, dark meat commands a premium in the domestic market.

Domestic consumption estimates for MY 2002 were revised upward, reflecting an increase of 6 percent over MY 2001 consumption. MY 2002 prices for poultry (broilers or whole chicken) have generally been about 15 percent lower than 2001 prices. However, prices for chicken leg quarters in the Mexican border state markets more than doubled after the Government of Mexico imposed AI import restrictions on U.S. poultry and poultry products. Border states are the only areas that can import raw poultry for retail. Retail prices for chicken legs and thigh meat jumped from \$6.00 pesos (US\$ 0.60) to \$14.00 pesos (US\$1.40) per kilo, because Mexican retailers are now having to buy more domestic product to fill orders that would normally be comprised of US product.

Roasting chickens (whole chicken without offal) account for 26 percent of chicken meat consumption, while chicken sold in wet markets and stalls (whole chicken including offal) account for approximately 28 percent of the total. Live birds represent 31 percent of total chicken meat consumption. Only 5 percent of total chicken meat consumption is purchased in supermarkets (whole chicken without offal), and chicken cuts account for less than 10 percent of total consumption.

TRADE

Chicken and turkey meat are the primary poultry products imported by Mexico. Chicken imports are forecast to grow for MY 2003, the first year of the full NAFTA implementation, as tariffs and tariff-rate quotas are lifted. Mexican consumers prefer dark meat and U.S. leg quarters are competitively priced. Imports of poultry cuts and mechanically deboned chicken, are expected to increase 15 percent over MY 2002 imports.

The Mexican poultry industry is concerned that larger imports of lower priced U.S. chicken leg quarters for retail could adversely affect producers' price structure for domestically produced chicken meat. Demand is so great that there are reports of significant imports of chicken leg quarters that evade the tariff-rate quota (TRQ) and tariffs. Historically, poultry producers have opposed imports, a position that has been exacerbated by a lack of access to the U.S. market. The Food Safety Inspection Service is currently working to approve several Mexican processing plants for shipments to the United States. However, poultry producers are likely to continue pressing the Mexican government to implement trade measures to protect the industry. The U.S. industry has been in touch with the Mexican industry to try to find a mutually workable proposal to address the Mexican concerns about 2003.

Due to concerns about the presence of Avian Influenza (AI) in certain U.S. states, the Secretariat of Agriculture (SAGARPA), through the Mexican Animal Health authorities established an AI import policy regulation on July 12, 2002. Under this emergency regulation, NOM-EM-016-ZOO-2002 (MX2086), Mexico requires that all raw poultry destined for retail sale originate from AI-free states, and come from flocks that have undergone two AI tests using the agar gel precipitin procedure and the hemagglutination inhibition (HI) test. At the writing of this report, U.S. exporters were unable to comply with the HI requirement because the antigen is not commercially available in the United States. Animal Health authorities allowed imports of poultry meat for processing and raw retail sale from non-AI states, if birds were slaughtered prior to June 12, 2002, to help clear shipments already at the border. However, any raw chicken for retail sale slaughtered after June 12 must receive the two AI tests. As a result, U.S. exports of raw poultry for retail have come to a standstill since June 12. Additionally, raw poultry meat, eggs, and baby chicks from the states of Texas, California, Maine, Virginia, Connecticut, Pennsylvania, North Carolina, and West Virginia are prohibited, unless the product is being shipped to a processing plant for further processing. Fully cooked chicken products may enter Mexico, even if shipments come from AI states.

The APHIS and FAS offices in Mexico have been in close contact with SAGARPA to try to remove restrictions from some AI states that are already clear and remove some other requirements that SAGARPA has imposed to poultry trade. Since the enforcement of the AI requirements, only MDM and poultry meat for further processing have been able to comply with the requirements. The following table shows how the current AI regulation is affecting U.S. poultry and poultry products exports to Mexico as of August 2002.

NOM-EM-016 REGULATIONS FOR POULTRY AND POULTRY PRODUCTS EXPORTS TO MEXICO
SINCE JULY 11, 2002

Item	Raw Poultry for Retail	Raw Poultry Further Processing	Fully Cooked Product	Table and Hatching Eggs	Three Day Old Chicks
AI states export status 1/	NO	YES	YES	NO	NO
Required language on cleaning and disinfection of trucks	YES	NO	NO	YES	YES
Required sealing of trucks at point of origin	YES	YES	NO	YES	YES
HI test required 2/	YES	NO	NO	YES 4/	YES 4/
Agar Gel test required	YES	NO	NO	YES 4/	YES 4/
New labeling requirements 3/	NO	NO	YES	NO	NO

1/ Maine, Connecticut, Pennsylvania, West Virginia, Virginia, North Carolina, Texas and California

2/ The required antigen to conduct the hemagglutination for inhibition (HI) test is not commercially available in the U.S.

3/ New Animal Health Law requirements effective since June 12, 2002.

4/ Test should be conducted on a quarterly basis.

Source: FAS, USAPEEC Mexico

The AI regulations in place have essentially shut down the market for retail exports to Mexico for the months of July and August, and final import estimates could be slightly lower than estimated if the problem is not resolved soon. Mechanically deboned meat MDM and poultry products for further processing, however, have continued to be imported almost as usual. MDM is imported by Mexican processors as an input for the domestic sausage and cold-cuts industries. Domestic production of MDM is only 10,000 MT. The leading meat packers account for more than 80 percent of the total MDM imports. As in MY 2001, MDM imports for MY 2002 are forecast to remain strong. To meet domestic demand, the Mexican government has continued to waive the enforcement of the original TRQ for this product. However, the 2002 Budget, approved by the Mexican Congress on January 1, 2002, requires that turkey cuts and MDM imports at the out-quota tariff be reduced by 10 percent from last year's total import level. It appears that this move is intended to force processors to increase purchases of domestic pork. The affect on U.S. exports of MDM (chicken) is expected to be minimal as sausage processors may be willing to pay the over-quota import tariff to meet their needs during the final months of the year. It is also possible that some importers will resort to under-invoicing or bringing in brine-packed products. Under NAFTA, brine-packed poultry is subject to a 1 percent duty for MY2002. Another import option for poultry meat processors is using the "unilateral" TRQ which is open to all countries. On December 27, 2001, the Secretariat of Economy (SE) published TRQs for MDM, turkey cuts, and whole duck for a total of 40,543 MT. This is a non-NAFTA TRQ with a 10 percent duty (see MX 2006) open to all countries.

SE has been allocating the TRQs for MDM every three months. For 2002, SE announced import certificates ("*cupos*") totaling 131,504 MT for MDM and 95,791 MT of turkey thigh meat, which is well above the original NAFTA TRQs for 2002 of 34,203 MT and 35,470 MT respectively. According to official data, the final estimates for MY 2001 imports of MDM and turkey thigh meat were 146,116 MT and 106,435 MT respectively.

Border companies are the main customers for U.S. chicken meat, followed by Mexican meat processors who import mainly MDM. Duty-free access for U.S. uncooked whole poultry and poultry parts, basically chicken meat parts, was only granted to domestic trading companies operating in the northern border region. But for 2003 with the NAFTA implementation, other companies will have the opportunity to market these products.

Duck products are also subject to NAFTA TRQs and are included in general poultry categories: "other whole poultry"; and "other poultry cuts". The quantity that SE makes available through public auctions is so small that importers rarely participate. This is because there are very few importers and most live far from Mexico City where the auctions are held. Consequently, potential importers (mainly small scale restaurants) requested the elimination of the TRQ using the argument that imports of duck products would not harm Mexico's small duck industry, but to no avail. Importers expect an increase in imports for 2003 after the elimination of quotas. The auction includes ducks, geese or guineas from the United States under the NAFTA TRQ of 999 MT of imported whole product, and 10 MT of parts. The recent AI regulations are applied to ducks and geese.

Trade between Mexico and the European Union under their free trade agreement has been small. Fresh poultry meat was not among the agricultural products negotiated in the tariff negotiations. Most of the trade has been Mexican exports of SPS eggs which enjoy a 50 percent reduction in the EU tariff.

POLICY

On June 12, 2002, Mexico published the long awaited amendment to the Animal Health Law. While this amendment has several provisions, the most important provision is the moving of import verification points from the US side of the border to the Mexican side of the border three months from the date of publication (120 calendar days). All import verification points in the United States will no longer be authorized to operate after October 12, 2002. Until then, the seven import verification points under court injunctions (*amparos*) will continue operating on the U.S. side of the border. Two points are currently operational in Colombia (near Nuevo Laredo) in the state of Nuevo Leon and there are another 11 under various stages of construction.

MARKETING

Given the limited access for U.S. uncooked poultry products, effective market development activities have focused on raising consumer awareness about further processed poultry products. Generic advertising campaigns have been a good approach to increase domestic consumption of poultry products. For 2003, however, when NAFTA becomes fully implemented, and assuming the current situation regarding the HI test is resolved, imported uncooked poultry meat for retail will be able to be shipped throughout the country and new marketing activities will have to be developed for this product. Currently, most of the poultry meat in Mexico is sold as whole birds. The local industry supplies and delivers whole birds through wholesale public and wet markets overnight to the major cities. Sales of chilled or refrigerated poultry meat through supermarkets account for less than 10 percent of the overall consumption. One option appears to be to have joint U.S.-Mexico generic marketing activities to expand overall consumption of poultry

products.

For cooked and processed poultry products, USAPEEC's Mexico office has participated in large retail and food service shows like EXPHOTEL. The main challenge to U.S. exporters of high value products continues to be finding a local distributor with wide distribution capacity. In addition, distribution of imported food products, particularly frozen products, is dominated by only a few local distributors with established relationships and product lines. One possible way of broadening distribution options would be to find Mexican partners amongst meat and poultry processors with distribution capabilities. Local processors may be interested in selling imported products under their local brands.

TURKEY MEAT

PRODUCTION

Turkey meat production is forecast to grow four percent during MY 2003. Domestic meat production represents less than 10 percent of total consumption and domestic firms sell 75 percent of their production as uncooked whole turkeys for the Christmas season. Production of domestic turkey parts and further-processed products is very limited. Two large companies (Parson and Jerome-Mezoro) represent almost 90 percent of total domestic production. Most turkey is produced in the states of Chihuahua (40 percent) and Sonora (50 percent).

Genetics are usually sourced from the United States. The main turkey breeding flocks in Mexico are ORLOP with 50 percent, NICOLAS with 40 percent, and BUTA with 10 percent of domestic production. Producers import almost all the progenitor stock and are also importing fertile eggs for light and heavy breeders. Turkey meat production for MY 2002 remains unchanged. However, the industry has been affected by the recent AI regulations, as this industry has not been able to import baby chicks or fertile eggs since the restrictions began (See Chicken Trade Section).

CONSUMPTION

The consumption forecast for MY 2003 is expected to grow at least 14 percent, more than twice the previous year's growth rate, due to population growth and rising demand from the cold cut industry. Demand for mechanically deboned turkey (MDT) and turkey parts for processing are expected to spur the growth when the NAFTA is fully implemented in January 2003.

The consumption estimates for MY 2002 have been revised upward based on the most recent industry information. Consumption of turkey in the form of cold cuts and lunch meats continues to increase, primarily through sales in supermarkets and deli-restaurants. Cooked hams made from blends of domestic pork and U.S. turkey thigh are substantially cheaper than pure pork cooked hams. Most of the whole turkey demand is during the Christmas season, where average bird weight is 15 pounds. Average per capita consumption is estimated by UNA at 4.2 pounds for 2002 including whole turkey, turkey cuts and other turkey imported products.

TRADE

Imports of turkey meat are forecast to grow for MY 2003 because of the full NAFTA implementation and subsequent lifting of all tariffs and tariff-rate quotas. Whole turkey imports are expected to increase slightly. These imports, which are mainly smoked turkeys, compete directly with domestic production around the Christmas season. Whole turkey imports for MY 2002 are expected to be slightly lower because of some labeling issues affecting two exporters that have not been resolved yet, and could reduce smoked whole turkey imports. Also, the AI emergency regulations that Mexico imposed to imported poultry products are affecting fresh turkey meat imports from the U.S. (See Chicken Trade Section). Imports of Turkey from Chile have also been affected because of AI outbreaks in that country. According to Mexican animal health regulations, any area with AI problems should wait at least six months from the last outbreak so that the area in question may be considered free of AI and able to resume exports. Whole turkey imports were 1,629 MT according to official data, underfilling the NAFTA TRQ for 2001. Overall imports have increased because of higher Chilean poultry imports that enter duty free and have no TRQ under the Mexico-Chile Free Trade Agreement. Imports from Chile were 2,300 MT in 2001. Imports from Chile for 2002 could reach the same level if they can resolve their AI issues.

Imported turkey parts and MDT have been very successful in Mexico, mainly turkey thigh meat, which is used to produce franks, hams, and cold cuts. Mexico has waived NAFTA TRQs for MDT and turkey cuts, due to strong demand from domestic meat processors. Imports of turkey parts and MDT for MY 2003 are forecast to increase 15 percent due to continued demand from the cold cut industry and the elimination of tariffs with the full implementation of NAFTA. Currently, two large corporations have about 75 percent of the market share for these products. For 2003, new players could enter the market as trade opens. Imports are expected to continue increasing because domestic producers cannot meet Mexican packers' demand for MDT. However, the domestic pork industry continues to lobby against the increasing imports of these products and could press the Mexican government to take measures against MDT imports. Imports of turkey parts and MDT for MY 2002 are expected to increase at a lower rate compared to MY 2001, because the Mexican Congress (See Chicken Trade Section) required that turkey cuts and MDM imports be reduced by 10 percent during 2002 in an effort to increase purchases of domestic pork. The total volume imported, however, could be larger if the processing industry finds it profitable to pay the over-quota tariff of 49.4 percent.

The United States is by far the main supplier of turkey meat and products to Mexico. Turkey meat (raw, frozen whole turkey and cuts) has done well in the states along the Mexican border where there have been duty free import quotas. For 2003, these products will have the potential to reach the entire Mexican market. Also, domestic meat processors are demanding more turkey thigh meat to produce cooked hams made up of blends of domestic pork and U.S. turkey thigh. Domestic "turkey lines" have increased significantly. The leading turkey processors have been successful in gaining shelf space for fresh turkey parts, and high value products, by targeting medium and high income segments of the population.

MARKETING

Around 75 percent of the total production in Mexico is marketed as whole turkeys during the Christmas season and approximately 25 percent is sold as cut-up and further processed turkey meat products. USAPEEC, along with local turkey producers, have sponsored generic marketing campaigns to increase overall consumption of selected turkey products in Mexico. This activity could continue as turkey meat consumption has great potential to grow. USAPEEC in Mexico has also participated in large retail and food service shows promoting further-processed poultry products. For example, USAPEEC members have showcased their products at ExpoHotel show in Cancun along with other U.S. selected food and beverage products.

USEFUL WEB SITES

- Information Service of Agricultural Statistics (SIAP) of the Secretariat of Agriculture, Livestock, Rural Development, Fishery & Food (SAGARPA)

www.siea.sagarpa.gob.mx/

- National Poultry Association (UNA)

www.una.com.mx

- National Market Information Service (SNIM)

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